

PUBLIC DISCLOSURE

February 26, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Massachusetts State Employees Credit Union

101 MERRIMAC STREET
BOSTON, MA 02114

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Massachusetts State Employees Credit Union (MSECU) prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of February 26, 2001.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

Since MSECU is an industrial credit union, meaning it defines its assessment area as its members; the overall rating is comprised of only three performance criteria of the small institution examination procedures: Loan-to-Deposit Ratio, Lending to Borrowers of Different Incomes and Fair Lending.

The credit union's average net loan to deposit (share) ratio for the period of June 30, 1999 to December 31, 2000 was 77.1 percent and was considered to exceed the standards for satisfactory performance. MSECU distribution of credit among different income levels is reasonable and considered to meet the standards for satisfactory performance. In addition, the credit union's fair lending performance was found to be satisfactory at this time and no CRA complaints were received since the previous examination.

PERFORMANCE CONTEXT

Description of Institution

Massachusetts State Employees Credit Union (MSECU) is a state chartered financial institution with assets of \$46.9 million as of December 31, 2000. The credit union operates only one banking office located at 101 Merrimac Street in Boston, Massachusetts. The credit union's loan portfolio is comprised currently of 6.5 percent unsecured credit card loans, 27.9 percent of all other unsecured loans, 13.4 percent new vehicle loans, 21.0 percent used vehicle loans, 12.1 percent first mortgage real estate loans, 18.1 percent other real estate loans, and 1.0 percent all other loans. The credit union currently has 12 Automated Teller Machine (ATM) available to its customers located throughout the state.

The credit union was last examined for compliance with the Community Reinvestment Act (CRA) by the Commonwealth of Massachusetts Division of Banks as of June 1, 1998. That examination resulted in CRA rating of "Satisfactory."

Description of Assessment Area

MSECU defines its assessment area as its membership, in accordance with the Massachusetts CRA Regulation, 209 CMR 46.41(8), which states "Notwithstanding the requirements of this section, a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area. MSECU has elected to identify its assessment area in this manner.

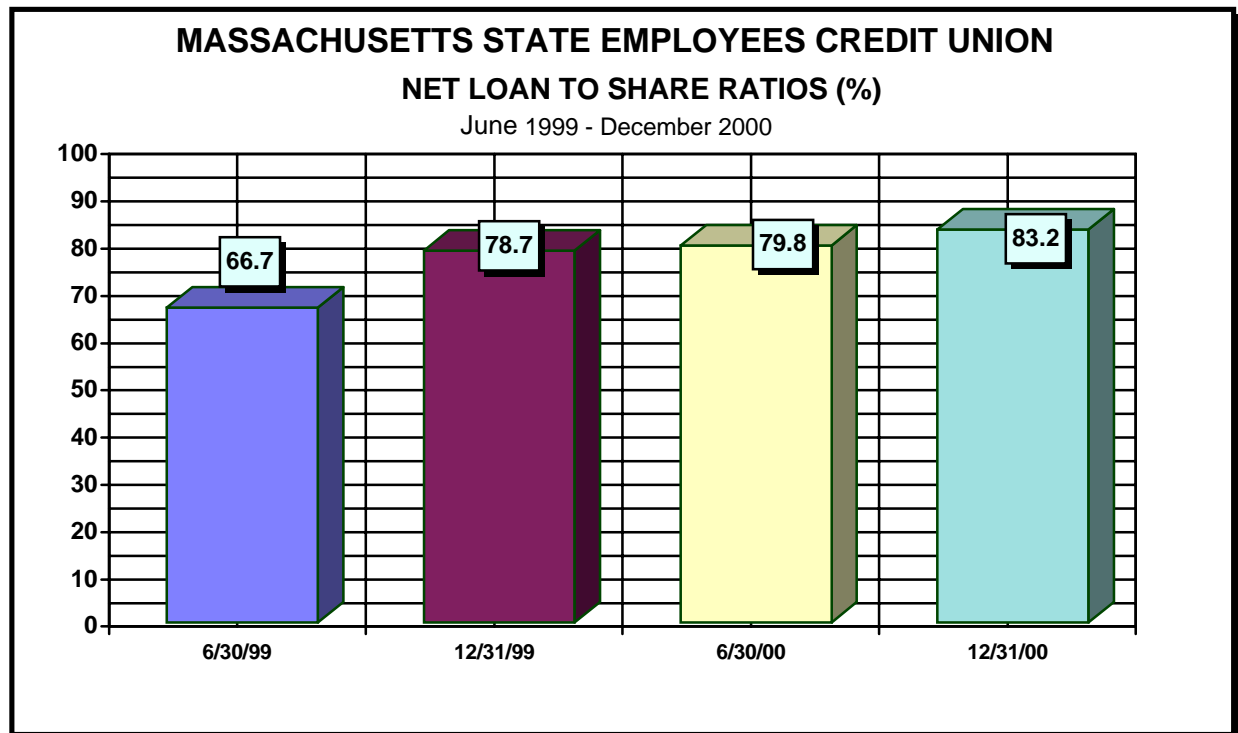
The credit union's membership (as incorporated in its by-laws) is open to all employees of the Commonwealth of Massachusetts, its agencies, authorities, departments, as well as retired persons of these entities, and the employees of the MSECU, and to the immediate families of qualified members. As of December 31, 2000, the credit union has 16,780 members.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

MSECU's average net loan to deposit (share) ratio was calculated by using the data reported in the four previous semiannual NCUA 5300 Reports. This ratio is based on total loans net of the allowance for loan and lease losses as a percentage of total deposits (shares). The credit union's average net loan-to-deposit ratio for the period of June 30, 1999 through December 31, 2000 is 77.1 percent. During this time, net loans increased approximately 28.8 percent, while deposits (shares) have increased approximately 3.3 percent. This shows that the loan growth has outpaced the deposit (share) growth. At the previous state examination on June 1, 1998, the average net loan to deposit (share) ratio was calculated to be 83.7 percent, which is higher than the current average. As indicated in the table below, the credit union's net loan to deposit (share) ratio has increased during the examination period and currently stands at 83.2

percent as of December 31, 2000. The following graph depicts the net loan to share ratio for each quarter under review.



Source: NCUA 5300 Reports 6/30/1999 – 12/31/2000

Based on the above information, the credit union's asset size, resources and the credit needs of the members, MSECUC's net loan to deposit (share) ratio is considered strong and exceeds the standard for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA

Under the CRA regulation, 209 CMR, section 46.41(8), a credit union's membership that is not based on residence, such as the MSECUC, may define its assessment area as its membership, as opposed to a geographic area. A membership defined assessment area does not consider any fixed limits on geography, therefore an evaluation of credit extended inside and outside of the assessment area was not conducted, as such an analysis would not be meaningful.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The credit union's consumer loans were analyzed to determine the distribution of lending by borrower income level. The analysis included a sampling of 100 consumer loans for 1999 and 2000 during the examination period that was conducted to determine the distribution of credit based upon the income levels of the borrowers. The vast majority of the consumer loans were originated inside the Boston MSA. Income levels were categorized by the ratio of the applicant's reported income to the estimated 1999 and

2000 median family incomes for the Boston Metropolitan Statistical Area (MSA), which are \$62,700 and \$65,500, respectively. These income figures are based on estimated 1999 and 2000 data from the Department of Housing and Urban Development (HUD).

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income. The following tables show by number and dollar amount, consumer loans to low, moderate, middle and upper-income borrowers in each respective income group.

Distribution of consumer Loans to Borrowers of Different Income Levels By Number

Borrower Income Level	1999		2000		Total	
	#	%	#	%	#	%
< 50%	6	12.0	7	14.0	13	13.0
50 - 79%	29	58.0	17	34.0	46	46.0
80 - 119%	11	22.0	11	22.0	22	22.0
> = 120%	4	8.0	15	30.0	19	19.0
Total	50	100.0	50	100.0	100	100.0

Source: Consumer loan sample 1999 and 2000

Distribution of HMDA-Reportable Loans to Borrowers of Different Income Levels By Dollar Amount

Borrower Income Level	1999		2000		Total	
	\$(000)	%	\$(000)	%	\$(000)	%
< 50%	21	5.6	20	5.5	41	5.5
50 - 79%	188	50.3	109	29.4	297	39.9
80 - 119%	119	31.8	70	18.9	189	25.4
> = 120%	46	12.3	171	46.2	217	29.2
Total	374	1000	370	100.0	744	100.0

Source: Consumer loan sample 1999 and 2000

Based upon the data sampled, 1999 and 2000, the credit union extended 13 percent of their consumer loans by number and 5.5 percent by dollar amount to low-income borrowers.

This review indicated that 46.0 percent of the loans by number and 39.0 percent by dollar amount were made to moderate-income members. While demonstrating a strong penetration of loans to low and moderate-income members, it should be noted that consumer loans typically consider only the income of one applicant compared to the median family income of the area. The analysis of consumer lending tends to inflate low and moderate-income penetration performance levels. However, these figures are utilized in considering comparability to the median family income for the MSA.

HMDA-Reportable Lending

The credit union's HMDA-Reportable loans for calendar year 2000 were also analyzed to determine the distribution by borrower income level. Only year 2000 loans were analyzed since this was the first year the credit union was required to report HMDA data. The following table shows by number and dollar amount of HMDA-reportable loans to low, moderate, middle and upper-income borrowers.

Distribution of HMDA-Reportable Loans to Borrowers of Different Income Levels by Number and Dollar Amount

Borrower Income Level	2000		2000	
	#	%	\$(000)	%
< 50%	1	2.7	60	2.5
50 - 79%	9	24.3	303	12.6
80 - 119%	10	27.0	740	30.9
> = 120%	17	46.0	1,296	54.0
Total	37	100.0	2,399	100.0

Source: HMDA/LAR Data for the period 1/1/2000 to 12/31/2000

As detailed above, the credit union originated 1 loan or 2.7 percent by number and 2.5 percent by dollar amount to low-income borrowers. There were 9 loans or 24.3 percent by number and 12.6 percent by dollar amount to moderate-income borrowers during 2000. The majority of HMDA-reportable loans during 2000 were to upper-income borrowers.

The distribution of consumer loans and HMDA-reportable loans by borrower income demonstrates the credit union's willingness to lend to borrowers of all income levels, including those of low and moderate-income. Based upon the above data the credit union is considered to meet the standards for satisfactory performance in this category.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

According to CRA regulations, credit unions whose membership by-laws provisions are not based on residence are permitted to designate its membership as its assessment area. Therefore, since the MSECUCU has defined its assessment area as its membership, as opposed to a geographical area, an evaluation of credit extended within defined geographic areas was not conducted, as such an analysis would not be meaningful.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Based upon the review of the credit union's public comment file and its performance relative to fair lending policies and practices the institution meets the standards for satisfactory performance.

REVIEW OF COMPLAINTS

A thorough review of the public comment file revealed that the credit union received no complaints pertaining to the institution's CRA performance since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

MSECU has established a fair lending policy that covers numerous fair lending and diversity issues. Detailed below is the credit union's fair lending performance as it correlates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

STAFF TRAINING

The credit union has not participated in any formal training programs since the previous examination.

STAFF COMPOSITION AND COMPENSATION

The credit union has a staff of 32 full-time and 4 part-time employees, 12 of which are minorities. The credit union employs 8 individuals who speak a foreign language including French, Portuguese, Italian, Spanish, Vietnamese and Japanese.

The credit union does not compensate any of its loan officers on a commission basis, thereby encouraging loans of all amounts including those to low and moderate-income individuals.

OUTREACH

Credit union management ascertains and aims to improve its responsiveness to the credit needs of its members through regular contact with numerous community liaison organizations. These organizations include but are not limited to, the following: Massachusetts Teachers Association, Friends of the Council for Aging, Massachusetts Mortgage Bankers Association, and the Massachusetts Credit Union League.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

The credit union evaluates both the products it offers and its product mix on a continuing basis. This is conducted to help determine whether the credit union is offering competitive products and whether those products are responsive to the assessment area's needs.

MARKETING

MSECU sends out a newsletter on a quarterly basis to all members. "State of the Union" is an informational newsletter that deals with important credit issues and introduces credit programs and products that may be beneficial to all its members. Additionally, the credit union does marketing to specific agencies and participates in the state run health fairs.

CREDIT EDUCATION

In February of 1999 the credit union participated in two community homebuyers programs. These informational workshops were provided at no cost and at two different locations in the state.

COUNSELLING

The credit union refers all loan customers whose home loan is delinquent to the appropriate credit counseling services available in the area. Additionally, the credit union will work with any member experiencing credit difficulties.

SECOND REVIEW PRACTICES

All denied mortgage loan applications are given a second review by either the President or the Vice President. The credit union's consumer loans are reviewed on a quarterly basis to ensure that all loans receive the same underwriting standards.

INTERNAL CONTROL PROCEDURES

The credit union's Vice President performs an informal review of the institutions HMDA/LAR data on a continuing basis.

MINORITY APPLICATION FLOW

During 2000, the credit union received one HMDA-reportable application from a minority. This application equals 2.4 percent of the total HMDA-reportable application received by the credit union.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

Massachusetts State Employees Credit Union

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **FEBRUARY 26, 2001** has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.